

FAIR PROPERTY-TAX COMMITTEE QUESTIONS & ANSWERS

1. YOUR PROGRAM SOUNDS A LOT LIKE CALIFORNIA'S PROP 13!

There are both similarities and differences. Prop 13 uses the acquisition value (purchase price) plus 2% annually to set property taxable value, and sets a firm tax rate cap of 1%. This resulted in a massive reduction in property taxes when first passed in 1978, and has maintained predictable stable taxes as promised. It has some detractors, but a recent poll of this 30 year old program indicated the voters would pass it again by over a 2/3rds majority.

Our proposed program is similar, as it would use acquisition value (purchases price) plus an annual stabilization index of up to 4% to calculate assessed annual taxable value. It differs, as tax rates would not be preset, but instead calculated by the state tax commission office annually to repeat the previous years tax revenues. Any increase would have to be approved by public hearing or election in accord with existing State Truth in Taxation Legislation.

In summary, our program differs in that it will not cut taxes for schools or government. It also will not provide an automatic annual increase, like (2%) in Prop 13. It is very similar as it uses original purchase price as the annual basis for sharing tax burden, and will provide predictable and stable property tax assessments that will not be inflated by high property appreciation.

2. WHY DO WE NEED A STABILIZATION INDEX?

This index, no more than 4%, would increase the purchase price basis annually to calculate the property taxable value. It is consistent with the objective of keeping annual property taxes in line with the “ability to pay” taxing principle. The index is typically developed by the state and may comprise existing indexes like the Cost of Living (COL), Social Security COLA, or even property commerce indexes. Using a stabilization index will protect both new and existing owners during volatile periods of high property inflation and deflation from progressive and regressive tax burden shifts. The index percent will be added equally to all properties so it is NOT A TAX INCREASE or DECREASE, but rather minimizes the shift of tax burdens and maintains the “ability to pay” principle during periods of volatile inflating or deflating property markets.

3. THE CURRENT MARKET BASED SYSTEM WILL EVEN OUT AS WE ONLY EXPERIENCED AN ANOMALY OR SPIKE IN PROPERTY APPRECIATION!

In theory, this is the way the current system is supposed to work. However, it has not worked in recent years, and due to so many changes and vagaries in today’s real property marketplace, we do not believe it will work in the future. Low steady value increase and decrease swings have been replaced by rapid moving high levels of volatility, and creative financing and investment orientation will continue to influence future market change.

We don’t believe the existing unfair tax burden shifts will just even out in the future as this market volatility and evolution is going to continue well into the future. For example, if the system is not changed it is highly probable properties that were not assessed during the high inflation periods

will likely be reassessed during periods of deflation, and properties assessed during inflation will not be reassessed during periods of deflation resulting in greater unfairness.

We feel this and other inequities are highly likely due to County Assessor staff limitations, sales price comparables data not being available or timely, and the subjective nature of full value appraisals. We feel the current market based system is no longer responsive to a very dynamic real property market. It's time for a change.

4. A CHANGE TO THE ACQUISITION VALUE SYSTEM YOU ARE SUGGESTING WILL LOWER REVENUES FOR OUR SCHOOLS AND OTHER TAXING AGENCIES, CAUSING CUTBACKS AND REDUCED SERVICES!

This is untrue. Property taxes will still be collected under the guidelines of existing Truth in Taxation Legislation, and will not be any more or less than under the current market value based system. Also, there will be no change to the process of increasing taxes via public hearings and elections.

5. THE ACQUISITION VALUE PURCHASE BASED SYSTEM YOU ARE PROPOSING WOULD ALLOW TWO HOME OWNERS LIVING SIDE BY SIDE IN THE SAME SIZE HOME ON THE SAME SIZE LOT TO BE PAYING A LARGE DIFFERENCE IN PROPERTY TAXES. THIS SEEMS UNFAIR!

This is a common criticism of Acquisition Value Systems like Prop 13 and our proposed property purchased based system for Utah. The condition described unfortunately happens far too often with Utah's current market based system, due to subjective assessor evaluations, and is the subject of most appeals.

On the other hand, in Acquisition Value Systems it is not only expected but is the very basis of equity and fairness. It is the answer to the regressive property tax problems that cause severe tax hardship and threaten home ownership for many whose income does not keep up with property inflation. The problem is of course caused by a new owner paying a higher price than that paid by an existing owner.

We do not feel there is an injustice to the new owner in this example, as they demonstrated both ability and expectation to pay the higher tax by virtue of paying a higher sales price for the property. Also, there is no injustice when an existing owner pays a lower property tax based upon the lower purchase price that demonstrates his expectation and ability to pay. In fact, it is consistent with other taxes we pay, such as sales tax and income tax, that vary greatly based upon what we pay and our demonstrated ability to pay. We feel the injustice in the above example would be increasing the existing owner's property value to equal that of the new owner and assessing the same tax as the new owner.

This action would shift tax burden from new owners to the existing owners. This regressive shift is becoming more and more common with our current system and must be corrected.

Also, in 1992, the US Supreme Court upheld the constitutionality of Acquisition Value Property Tax Systems, like the one being proposed, on this very issue in a landmark case (Nordlinger v. Hahn, 1992). The ruling upheld the difference in tax on the basis that the existing resident had a greater reliance interest, and that it was legitimate to treat owners already invested in property differently than new owners.

As an aside, it does not take long for new owners in acquisition value property tax states to appreciate property taxes remaining within a predictable range that does not exceed their "ability to pay".

6. THE ACQUISITION VALUE SYSTEM BEING PROPOSED WILL CAUSE A NEGATIVE ECONOMIC ENVIRONMENT FOR REAL ESTATE AND CONSTRUCTION AND OTHER RELIANT INDUSTRY COMMERCE!

This is a debatable concern. Some feel property owners will not want to lose a favorable tax basis and therefore not change property ownership as often as in the past. Others feel activity may even be more robust because the proposed transportability feature will allow home owners to take their tax basis with them. Also, new buyers will be attracted to a property tax system that is predictable and will not lead to financial hardships in the future.

In addition, not addressing our property tax problem could have a significant negative impact as new move-ins, especially retirees, will not relocate to problem tax states or jurisdictions. As to commerce, we see the proposed acquisition value property tax system as an agent for positive tax capitalization impacts as fewer property owners will have to restrict spending due to tax hardships. Increased spending will not be limited to home improvement type purchases, but will apply across the board, having a positive impact on both commerce and sales tax revenues.

7. I FEAR A PURCHASED BASED SYSTEM WILL SHIFT TAX BURDEN FROM THE OLDER DEMOGRAPHIC TO OUR YOUNGER FAMILIES!

We do not believe this is a realistic possibility. The proposed system does not differentiate by age. Nor does it differentiate by types of property owned. Commercial, undeveloped property, residential, and 2nd homes will all experience equal benefit from this proposed system. In summary, all properties will have a year-to-year taxable value that uses the original purchase price as the basis. Those paying a higher price for the property will pay higher property taxes than those who paid a lower price.

As new development is to pay for itself, we do not see a shift from new owners to existing owners. Of course everyone will be able to predict their tax bill in advance and know it will not increase unless a tax increase is approved. Those paying taxes as part of mortgage payments and renters will not see property value reassessments increasing monthly payments, and those paying year end lump sum payments will not be surprised with high increases.

8. WILL THE ACQUISITION VALUE ASSESSMENT SYSTEM STABILIZATION INDEX INCREASE MY TAXES EACH YEAR BY THE SAME PERCENTAGE?

No. The stabilization index is applied evenly to all properties to assess the same taxes that were collected the previous year. Therefore, each property's share of burden remains constant and will not reflect an increase or decrease. It should be noted that taxable values for the proposed acquisition value system may be appealed for an adjustment if they exceed full market value. Approval of these appeals could result in slight changes to tax burden sharing but it would be far less than the impact approved appeals have with our current system.

9. WILL THE PURCHASE OF A NEW HOME BY OUR CHILDREN BE EVEN MORE EXPENSIVE AND DIFFICULT, AS TAXES WILL BE SHIFTED TO NEW PURCHASERS OF PROPERTY?

It is true that if property home prices continue to increase, new purchasers of property will pay higher property taxes under the proposed Acquisition Value System than they would under the current market based system. However, we do not believe the property tax increase will prevent any new purchases of homes. For example, we forecast the property tax rate may increase from .90 to 1.00 as a result of county wide revaluing to purchase price. This means a new purchaser will pay .10 more in taxes under the proposed system than they would under the current system. On the purchase of a \$200k home with Homeowner's Exemption, this would amount to \$110 more in property tax, which certainly should not prevent a qualified buyer from purchasing a desired home.

It should be pointed out for all buyers, and especially young buyers who struggle to qualify, that the new proposed system will benefit them greatly by protecting them from high future home appreciation that might exceed their ongoing ability to pay. They would benefit from the predictability and stability of their property taxes and not have to fear future serious property tax hardships due to high inflation driven tax increases.

10. DOES THIS PROGRAM APPLY TO COMMERCIAL PROPERTIES AND DOES IT CHANGE ABATEMENT PROGRAMS OR GREENBELT EXEMPTIONS?

Yes, it applies to all properties except those centrally assessed. Other programs, such as various abatement exemptions, circuit breakers, and greenbelt programs, remain unchanged with the proposed property tax system.

11. PLEASE DEFINE “ABILITY TO PAY PRINCIPLE”, NEUTRAL, REGRESSIVE, AND PROGRESSIVE TERMS!

The “ability to pay principle” is an assumptive position a taxpayer has established based upon his current ability to pay the taxes on the acquisition of a taxable item. The taxpayer in principle agrees by virtue of purchase that he will pay these taxes at the minimum understood amount in accord with tax law year after year. In addition the taxes may increase, but should be limited within the range of annual inflation driven income increases for all taxpayers. When taxes increase beyond these minimum increase amounts it is said that they exceed ability to pay.

“Neutral” taxation is an established position of taxation that does not exceed the ability to pay for all income levels of taxpayers. It becomes established by acceptance of the taxpayers. “Regressive” taxes occur when shifts of tax burden are made to those with the least ability to pay and “progressive” taxes occur when shifts are made to those with the greatest ability to pay.
